CORUS ENTERTAINMENT

Moderator: Doug Murphy
April 9, 2015
1:30 pm CT

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Fiscal 2015 Q2 Corus Entertainment Analyst Call.

During the presentation, all participants will be in a listen-only mode. Afterwards we will conduct a question-answer session. At that time if you have a question, please press the 1 followed by the 4 on your telephone. If at any time during the conference you need to reach an operator, please press Star 0.

As a reminder, this conference is being recorded Thursday, April 9, 2015. I would now like to turn the conference over to Doug Murphy, President and Chief Executive Officer of Corus Entertainment Inc. Please go ahead.

Doug Murphy: Thank you, operator and good afternoon, everyone. I am Doug Murphy and welcome to Corus Entertainment's fiscal 2015 second quarter report and analyst call. Thank you for joining us today.

Before we read the cautionary statement, we would like to remind everyone that there are PowerPoint slides to accompany the call. These slides can be found on our website at Corusent.com in the Investor Relations section.

We'll now run through the standard cautionary statement. This discussion contains forward-looking statements that may involve risks and uncertainties. Additional information concerning factors that could cause actual results to materially differ from those in the forward-looking statements is contained in the company's filings with the Canadian Security Administrators on SEDAR.

Now, we'd like to introduce you to the Corus Entertainment team joining us on the call today. We have Tom Peddie, Executive Vice President and Chief Financial Officer; and Gary Maavara, Executive Vice President, General Counsel and Corporate Secretary.

Before reviewing our results, I would like to take a moment to say how excited we're to have the opportunity to build on the extraordinary legacy that (John Cassidy) and our talented management team have created over the past 15 years. As we said during our Investor Day in November, our story has just begun.

Moving to Slide 3 of the presentation and our operating results for the second quarter of fiscal 2015, consolidated segment profit was $60 million, up 1% year over year and consolidated revenues were $191 million flat to last year.

Moving to slide 4. While we saw growth in the quarter with year over year increases in our consolidated segment profit, a weak economic environment continued to affect business confidence and in turn, the advertising market which impacted our operating results.

While we saw gains in television, this was not enough to offset a shortfall in our radio business. The repositioning of our radio stations in certain key markets is starting to translate in ratings gains,

However, the revenue recovery is taking longer than anticipated and as a result of our revised forecast, we recorded $130 million non-cash broadcast license and goodwill impairment charge on these radio assets.

We also incurred business integration and restructuring charges of $8 million. These charges were partially offset by a significant investment gain of $17 million from the disposition of shares in GoPro held by one of our investments, Steamboat Ventures, for which we received pretax cash proceeds of $18.5 million.

These items, when combined, contributed to a net loss attributable to shareholders of $86.8 million in the quarter. Adjusted basic earnings per share were 33 cents, up 3% for the quarter.

Our television revenues for the quarter were $155 million, up 2%. As the division, continued to benefit from the integration of our new assets and strong growth in our Nelvana business.

Our merchandising, distribution and other revenues were up an impressive 32% for the quarter, as a result of higher international licensing revenues and increased Nelvana studio service work. These gains demonstrate the importance of owning more content to drive long-term growth for our company.

While television advertising revenues were softer than anticipated, strong audience delivery from our services continued in the second quarter, particularly on our women's, family and French language specialty networks. Our flagship brands, W Network and YTV maintained their leadership position as number one with their audiences, outperforming their competitive set and we expect this ratings momentum to continue.

On the subscriber front, the addition of our new services, Historia and Series+, contributed to a 2% increase in subscriber revenues in the quarter. Our revenue growth, coupled with disciplined cost controls, contributed to television segment profit of $60 million, which was up 3% for the quarter.

Turning to Slide 5 and our outlook for the rest of the year. We had hoped that economic headwinds affecting the overall advertising market would ease in the new calendar year, but unfortunately, this has not happened. In November, at our Investor Day, we discussed a number of factors contributing to the economic uncertainty. These factors are still at play.

Since January, there has been a further decline in the Canadian dollar, oil prices have continued to fall, an unexpected interest rate cut was announced and there were closures of large retail store chains, such as Target Canada, all of which have implications for the retail and consumer product sector. These factors have continued to erode confidence within the advertising community.

In order to achieve our original segment profit guidance of $300 million, we would need to outpace last year by 6.5% in the remaining six months of the year and we do not believe this is likely.

In summary, with softer than anticipated results to date and in light of the continued weak economic climate, we do not expect to achieve our segment profit guidance for the fiscal year.

However, our free cash flow guidance of $180 million plus remains unchanged, as we have acted swiftly to lower our cash spend on program rights, film investments and capital expenditures.

In our radio division, we have made considerable progress turning the business around with an intense focus on programming and cost control. Recent numerous data indicates our repositioning of key large market stations resulted in improved ratings for our target demos. As a result, in Vancouver, we are now forecasting growth for that cluster in Q4.

In Toronto, 102.1 the Edge has made gain in its target demos in these last few months and we have seen year over year bookings growth in the last few weeks in Toronto. Elsewhere, our repositioning efforts continue.

In February, we rebranded two more of our stations to the fresh radio format, bringing the total number of stations to seven. There are further plans to reformat an eighth station under the fresh radio banner in the coming months.

We are confident that by expanding the hot adult contemporary format, we can build a highly successful women targeted radio network that leverages our expertise of women audiences across our radio and television divisions, building further advertising scale with women to the benefit of our advertisers and ultimately our revenues at Corus.

On March 31, we announced a leadership change in the Radio Division with the retirement of the President of Radio, Chris Pandoff. We would like to thank Chris for his two decades of service and wish him all the best in the future.

Mario Cecchini will now expand his role to become President of Corus Radio in addition to his current responsibilities as President of Corus Media. With Mario's extensive leadership experience, we look forward to his impact on the progress we're making on radio's turnaround.

As noted earlier, in our television business, audience delivery on our flagship networks continues to gain share from the competition. For example, YTV is not only maintaining its number one position with kids, it's also delivering strong co-view audiences as the number one specialty network outside of sports for adults 18 to 49.

Importantly, in Canada, we are not facing the ratings declines that our counterparts in the US are experiencing. In fact our kids networks, Treehouse and YTV, aggregate viewership is up.

On W Network, our original programming continues to drive audiences. Recently, we launched a slate of new highly anticipated series, including Hockey Wives, Game of Homes, Say Yes to the Dress and Property Brothers at Home which are contributing to the network's ongoing strong ratings. As the number one specialty channel for women, W remains a must have network in the women's space.

We are pleased that the strong ratings momentum continues on our core services. That said and given the current economic conditions and limited visibility, we expect the soft advertising environment to persist in the back half of the year.

These economic headwinds in time will pass. In the meantime, we have a solid plan in place and an embarking on a number of exciting initiatives that build upon our four strategic priorities.

Turning to Slide 6, we are confident that our strategic priorities will serve us well in the new regulatory and competitive environment. As we move forward, we are focused on building the business and driving performance by executing on our key priorities

Which we will remind you are one, own more content; two, expand into new markets; three, strengthen key partnerships and four, grow organically. Today, we'd like to share with you some of the good work we have done to move our plan forward, demonstrating why we are confident that despite the tough short-term outlook, Corus has a bright future ahead.

Moving to Slide 7, we are making great progress on our goal to own more content and strengthen key partnerships. Case in point is our freshly inked landmark deal with Nickelodeon and Viacom, a clear example of our success putting our strategic priorities into action.

This groundbreaking partnership with Nick delivers on our commitment to strengthen our longstanding relationships, as we strive to own and control the world's best content.

Under the terms of this all-encompassing multi-year deal, Corus can distribute or license the content on any platform or device in Canada, giving us complete exclusivity over the digital content for all existing and future technologies.

We have locked up exclusive Canadian rights to all Nickelodeon content in French and English across all platforms including OTT, mobile, on demand, SVOD, download to own from iTunes, as well as interactive content and games.

With this agreement, we can now fully capitalize on Nickelodeon's world class brands across all linear, digital and emerging platforms, fortifying our position in the emerging media landscape.

In addition, our enhanced partnership sees Nelvana and Nick increase the number of co-produced series that will be featured on Nick's channels and digital platforms around the world. This builds on our strategic priority to own and control more content, while increasing our opportunities in that large global marketplace for content and consumer products.

We're also very excited that several of our Nelvana productions have been picked up by Nick in the US and around the world. In the coming weeks, at Nick TV and licensing show, we will be announcing a number of these broadcast licensing deals which include our new series Truck Town, as well as renewals of Max and Ruby, Mike the Knight and Franklin and Friends.

Our relationship with Nickelodeon has never been stronger. We value enormously our longstanding partnership with Nick and Viacom and are thrilled to be starting a new chapter together.

We believe acquiring long-term exclusive rights for highly coveted content through these kinds of partnerships is critical as we further differentiate and enhance our powerful brands, particularly as we move into a new, more flexible regulatory environment.

Moving to our TV Everywhere strategy, TV everywhere is a must have proposition for our viewers. We will leverage our deep content portfolio to deliver additional value to consumers and our BDU partners with the launch of TV Everywhere apps for each of our kids channel brands.

We will kick off with Treehouse over the summer, followed by the rollout of more apps for the balance of our kid's channel brands later in the year. In our Nelvana business, we have now put our boys action comps behind us and the business is returning to growth.

We have a robust content pipeline for Nelvana that will be placed with the world's best broadcasters and supported with compelling merchandise and toy partnerships.

Our kids content, both new and library, is of enormous value to the ongoing proliferation of emerging digital platforms globally and will complement traditional broadcast revenues, driving sustainable top-line growth in our content business.

Now on to some of the promising properties in our content pipeline. We have put the band back together with our long-time partner Spin Master on an exciting new preschool brand Little Charmers, which has got off to a great start launching with strong ratings when it debuted in January on Nickelodeon in the US and on Treehouse in Canada.

In addition to securing placement on Nickelodeon, a number of our top tier licensee partners had aligned with the brand, including Scholastic with a global publishing deal and more than a dozen additional licensees, which will be signing on in the coming weeks.

This series is charming viewers and generating a ground swell of interest among moms in the marketplace, as we prepare to launch the toy line in early fall. Sparkle up, charmers.

Well we talk a lot about our business capabilities and revenues, we're also proud of the creative caliber of our work and our real talented team here at Nelvana.

Creating compelling content is part of our DNA and we're delighted that Mike the Knight has not only been picked up for another season by Nickelodeon, but has also been recognized globally with a recent international Emmy Award win. Well done, team.

We have also struck a partnership with the innovative toy company Cepia, to introduce Zhu Zhu Pets, the billion dollar toy hamster franchise to the next generation of fans. Nelvana will produce and distribute the animated Zhu Zhu series and oversee global merchandising for a new iteration of this favorite brand.

As well, just last week, we announced a partnership with internationally renowned actress and author and singer Julie Andrews and her daughter to develop an animated series based on her bestselling book Very Fairy Princess, slated for 2016.

With our extensive experience as kids content creators, our world class partnerships and a strong pipeline of new properties, we are confident that Nelvana is positioned for growth.

To grow organically, we continue to build our brands and extend our reach by optimizing our content offerings across platforms. In our pay television business, for example, we expect our HBO Canada offering to benefit from the highly anticipated new season of Game of Thrones which kicks off on April 12.

We have an acquisition campaign in market and this year our enhanced HBO deal - with our enhanced HBO deal, fans will be able to access previous seasons of this and other hit series to catch up and binge view as new seasons premier.

Finally, we would like to briefly touch upon the CRT's recent Let's Talk TV decisions. While the mandated packaging changes may create some challenges, it is important to remember that customers will be able to maintain their current packages as a default option if they wish which was one of our key recommendations at the CRTC hearings.

Additionally, the new packaging framework doesn't come into effect until 2016, giving us time to refine our services to ensure they are the top choices for consumers in the new environment.

The change in the nature of service rules was also positive for Corus. The relaxation of these rules has been a longstanding goal for us and with their elimination, we have much greater programming flexibility and a broader scope for our services.

We're confident that these changes will give us the opportunity to optimize our programming strategies and further enhance the appeal of our strong brands to audiences.

In this new landscape, having powerful differentiated brands and content is more important than ever and our focus on strengthening our partnerships with world class companies like Nickelodeon and Viacom is a vital part of our growth strategy which will give us a competitive edge and drive our success.

We hope you have found these comments helpful. We will now take any questions that you may have.

Operator: Ladies and gentlemen, you'd like to register a question please press the 1 followed by the 4 on your telephone. You will hear a three tone prompt to acknowledge your request. If your question has been answered and you'd like to withdraw your registration, please press the 1 followed by the 3.

If you're using a speakerphone, please lift your handset before entering your request. Once again to register a question, please press 1 4 on your telephone.

The first question comes from the line of Vince Valentini with TD Securities. Please proceed.

Vince Valentini: Yes, thanks very much. Maybe Doug, can you flush out a bit more the 32% increase in the merchandising distribution side this quarter? How does that revenue come in? Is there a lot of lumpiness there? Did you have some big licensing deals where you just get a onetime shot of revenue, or is there some recurring nature to some of what you're seeing there?

Doug Murphy: There is a combination of new and library content licenses and renewals, as well as some advances against some of our new properties in the merchandising side. And it is, by its very nature lumpy, Vince.

Vince Valentini: And you can't put out how much was - you would consider one time this quarter?

Doug Murphy: These are all from our new shows and renewals of strong library trends that I think are sustainable in the future. And the, you know, the advances on the consumer products franchises are just the start of what we expect to be ongoing revenue growth at Nelvana Enterprises.

Vince Valentini: Okay. Let me ask you about the partnerships you talked about. You talked a lot about Nickelodeon, but one you had last quarter was with HBO. The other long-term liability didn't seem to go up at the end of this quarter which would suggest there wasn't any huge bulge in long-term commitments for that HBO deal.

Can you give us any sense if that's the case? And also with this Nickelodeon deal, should we expect to see a big bulge in that liability line given how much more comprehensive the rights are that you've negotiated? I assume that'll show up in Q3.

Doug Murphy: It will show up in future quarters, yes.

Vince Valentini: And is it significant? I mean, are you having to pay a lot more to get that much more sort of rights and flexibility and all of the sublicensing components you now have?

Doug Murphy: We're comfortable with the incremental investment to achieve the additional content and the additional platform rights given the model. We always talk about a disciplined focus on ROI and both those deals cleared our internal hurdles.

Vince Valentini: Okay, can I ask you one last one? The Investor Day in November, maybe I misheard, but it sounded like there was already a pretty good flow of ad bookings for December and some confirmed increases, especially from some of the CPG companies that were weak throughout 2014.

Did I mishear that or did something else change late in December? Because your release today suggests that December was maybe the weakest month of the quarter.

Doug Murphy: Yes, we - December was a weak month. We had the pacing, it was early day pacing, but the pacing at that juncture for Jan/Feb looked pretty positive. That was before the (unintelligible) fell out of bed. And so we've seen a continuation of the CPG flu, as our head of sales described it during Investor's Day, into the new calendar year.

Vince Valentini: Thanks guys.

Doug Murphy: You’re welcome. Thank you.

Operator: The next question comes from the line of Paul Steep with Scotia Capital. Please proceed.

Paul Steep: Great, thanks. Hey, Doug, could we talk a little bit about just near term with radio, there was a comment in the release about the Toronto market revenue taking longer to recover.

Is there something unique in the market in terms of sort of pricing dynamics that’s sort of slowing things down? Just to understand if ratings are lifting, what's the sort of conversion rate happening there?

Doug Murphy: Hey, Paul, thanks for the question. There’s a couple nuances as regard to Toronto. One is we are pleased to be getting to see Edge start to get some growth in its core demo of 18 to 34, which is critical of course.

The sales note regards specifically our local sales force share. We've made some sales leadership changes in Toronto. And it took a few months to get traction, but we're delighted with the success we're having now. And we've had, I think, five consecutive weeks of year over year growth in local direct sales in Toronto and we expect more of the same in the future.

Paul Steep: Okay. And actually just I guess related to that, you know, you made the announcement around Mario's appointment. But have there been broader changes within radio that we should think about?

It sounds like - I'm assuming the same plan we heard of at Investor Day is in place and it's an evolution of that or is there a broader change that's been subsequently made?

Doug Murphy: It's a continuation of our Investor Day story, a real intensified focus on programming strategy, market research, music and listening to our audiences and what they're asking for, finding the holes in the market, building our branded services, i.e., Fresh Radio.

You'll recall, Paul, it was Fresh FM. We've now rebranded it for Fresh Radio and we're adding an eighth station in the coming months, so a real focus on programming. A real focus on sales efficiencies and optimizing our local business and both of those pieces of work resulted in cost savings.

So effectively, there’s three elements; programming, sales and the resulting costs. And then investing in ongoing market research to ensure we have positioning in our clusters to grow our ratings.

Paul Steep: Okay. And then just I guess the final one for me. On Nick with the additional content, is there any plan or thoughts around launching, you know, a direct

OTT service for kids in Canada or would it just be done via your BD partners has been your practice today?

Doug Murphy: What's meaningful for everybody to understand with the Nickelodeon deal is we have now a variety of options as to how we want to deploy those and monetize those rights.

So, you know, in the coming quarters, we're going to explore what the best way is to maximize the financial impact of this groundbreaking landmark deal and we have the ability to do that and work within the BDU ecosystem. All of those strategies will evolve.

Obviously, we have a number of them already fully baked, but we're not going to reveal them at this moment. But we have a solid approach for how to make that Nick deal work for us.

Paul Steep: Okay. Look forward to it. Thanks guys.

Operator: The next question comes from the line of Aravinda Galappatthige with Canaccord. Please proceed.

Aravinda Galappatthige: (Unintelligible), thanks for taking my questions. Doug, with respect to the ad trends, I mean, you've indicated that it would remain weak. But obviously, we're kind of coming off low base and the declines are sort of in the high single digits or low double digits range.

Can you talk to whether you still expect some sort of easing towards the end or do you expect that these trends are what will prevail through to the end of the year?

Doug Murphy: Thanks Aravinda for your question. At this moment, what we can say with complete certainty is there’s a lot of uncertainty out there. The visibility and the pacing remains pretty weak.

Business is coming in late. It comes in like in big chunks when it comes in, but it's not pacing in the way we have - we’d like to see. So we're taking a cautious stance.

The important thing to note is that we are delivering continued growth in our audiences on our core networks, which means that when we see some firming up of the macroeconomic backdrop we're going to benefit commensurately. But at the moment, we have weak visibility out into the future, so we're taking a cautious position.

Aravinda Galappatthige: Okay. And then just switching gears to pay television. I mean, I know you don't sort of report the subscriber numbers there, but any sort of general comments on soft of the stability of that business at this point?

Doug Murphy: In our view, with the launch of Game of Thrones, I almost said Game of Homes. With the launch of Game of Thrones on April 12, make sure you tune in for that everybody, it's a call to action for some acquisition strategies. We're working with all our BDUs to maximize the impact of that groundbreaking series.

We have the ability now to offer our subscribers binge viewing and stack catch up, prior season content. which we think is a value proposition that we've lacked in prior years.

So, you know, we're optimistic that we have the right mix of elements to get that pay subscriber business back to growth. I’d also note as regards the

CRTC decision, in our opinion that decision bodes extremely well for our HBO and pay business.

The ability to offer that on an ala carte basis or, you know, HBO pay in addition to a skinny basic we think is a compelling value proposition and it eliminates any kind of buy through requirements on behalf of subscribers.

So that bodes well for the service in the longer run. In the short term, we think Game of Thrones is the ticket.

Aravinda Galappatthige: Thanks Doug and last question, with respect to the free cash flow guidance, I just wanted to clarify. The $18.5 million from the disposal of investment relating to Steamboat Ventures, is that in the free cash, the $180 million or is it excluding the divestiture?

Tom Peddie: Hi Aravinda, it's Tom. I think the way to look at it is that when you look at our cash flow at the halfway point this year compared to last year, our programming spend this year is about $96 million versus $60 million last year. And then last year in the back half of the year, we spent $165 million on programming.

And so if you look at our $96 million, this year is up. Also because we had an extra four months of Historia and Series+, so our trending level on spending for the back half of the year will be closer to the first half of the year. Therefore, we have an opportunity to pick up a fair bit of cash in the back half.

And then combined with our capital expenditure number, we had given a number closer to $25 million. We think our capital expenditures this year will be about $15 million.

So when you take those particular factors into account, that's why we're able to continue to forecast our number of $180 million.

Aravinda Galappatthige: Great, thanks Tom. I'll leave with that. Thank you.

Operator: The next question comes from the line of Adam Shine with National Bank Financial. Please proceed.

Adam Shine: Thanks a lot. Doug, just going back to one of your answers earlier. In the context of what the CRTC is saying going forward regarding the potential sort of adjustments to, let's say the multiplexing of some of the pay channels and other channels, are you actually contemplating sort of (unintelligible) off HBO proper into this new regime?

Because I, you know, I guess one of the - I mean, there's certainly some logic it to it. But, I guess one of the concerns is to the extent that, you know, that that take-up rate becomes rather strong, you start to wonder sort of heading into the 2018 renewal whether or not, you know, HBO would simply opt to come in on its own over the top.

I guess maybe you can give us some of your thoughts around that?

Doug Murphy: First off, our teams are, as you might imagine, conducting a series of extensive internal reviews of our strategic options teeing off the recent decisions.

And certainly there are - one track is to explore and confirm the ability for us to offer HBO with the skinny basic. You know, we've talked in the past about

Comcast blasts in the US and how they offer HBO with a broadband subscription only and they've had huge uptake with that.

So, you know, our commitment is to grow our pay business. And with this added flexibility, we're confident that we can do that. I'm going to say one other thing and then I'm going to invite our guest speaker, Mr. Gary Maavara to comment on some of the CRTC decisions in a minute.

As regards what may or may not occur in 2018, that's, you know, beyond our capability to predict. You know, we work in close concert with Bell to strategize with HBO to optimize our collective businesses in Canada.

In our opinion, HBO is delighted with our partnership and the economic returns they accrue from Canada. So if we keep growing, everybody's going to be happy and that's kind of our focus.

With that, not let me kind of turn the table and ask Gary to make some comments just for all of your benefit on our view of the recent decisions on Let's Talk Television. Gary.

Gary Maavara: Thanks Doug. On that point of the multiplex, that is a great new opportunity for us to look at how we put the various channels that we have that are in multiplex out into the market. And as Doug said, we're considering that carefully as to what we're going to do next on that.

The other thing that's a real positive and something that came into existence on March 12 is the decision to do away with the genre protection rules. And effectively what that allows us to do is to look at each of our channels and decide on what is the absolute best way that the nature of service for those channels gets presented to our subscribers and viewers.

And that's a change that took place literally on that day. CRTC doesn't often do that sort of thing. But it gives us really a terrific opportunity to really create the best offering that we can without having to worry about whether we're going over the edges of the nature of service that we applied for originally.

So that's a great tool to help us prepare for the impending carriage rule changes, which are going to be - we have a year before the first stage of that. And then in - we have until 2017 for the second stage, so we've got a lot of time to prepare our channels.

And then in the longer term also with respect to Canadian content, the - basically the rule has given us the opportunity to really think about what's the absolute best kinds of investment that we can make in Canadian content to present to our viewers.

And one of the things that Doug referred to earlier in his commentary and which we've often said is that a lot of our Canadian shows are really working well now. And the regulatory structure is going to change so that we're even going to be able to use our investment dollars in Canadian even more wisely.

Doug Murphy: Yes, thanks Gary.

Adam Shine: Doug, maybe if I can just wrap one more question and again involving Gary.

Doug Murphy: Sure.

Adam Shine: I'm not going to ask you to look out in the context of the HBO sort of post 2018, but perhaps as it relates to, you know, the 2017 dynamic, when you've got the skinny basic and that ala carte both in the market effectively post

December or starting December 2016. You know, we are a year and a half away.

But, you know, is it not your feeling, as frankly, I think most people in the industry currently believe that notwithstanding the introduction of a parallel new regime. The value proposition will still, you know, unequivocally reside in terms of the existing regime, which may or may not undergo some additional changes to make it perhaps incrementally more compelling for consumers to stay within it rather than, you know, moving out in droves.

Can you maybe speak to that? Because obviously, you know, your stock imploded on the back of the March 19 decisions. It's not helped by, you know, the guidance coming off today.

But, the reality check here is that do you not feel that there's been a bit of an exaggerated knee jerk reaction in the context of a fear factor associated with what might happen to, let's say, YTV and perhaps some of your other big subscriber channels?

Doug Murphy: We do feel it's been an exaggerated response, absolutely. And I'll let Gary address your first half of that question.

Gary Maavara: Well the regulatory construct starts with the notion of consumers having the ability to maintain what they have now, the status quo. And presumably, they're going to continue to do that based on the value proposition.

And as I suggested earlier, certainly every channel in Canada is going to be looking at their best possible offering in that context. So that's where we start from.

And then the second thing is in terms of ala carte and bundles, in so many ways that's happening now, so it's not a dramatic change. There will still be bundles. There will be a value proposition associated with that.

So, you know, it remains to be seen. But the entire industry will obviously be completely motivated to keeping people both inside of the system and also consuming the television that they love.

And the important thing also in that context is people keep watching TV big time in droves and we're going to have the ability to present it to them basically on whatever device they want it.

Doug Murphy: I'll just tee off of that comment and that is true. I mean, adults are still watching the same amount of television as they have the last number of years, even though there’s a lot of new video being consumed on non-linear basis, it's an additive scenario.

I’d also note that and remind everybody that our focus has always been and will continue to be on the most attractive audiences; women, family and kids and on world leading powerful brands that have enormous equities with our subscribers, our audiences, our advertisers, our distributors.

And in a world where choice is now becoming more available, you look at our portfolio of world class properties or our domestic indigenous strong brands and I think we stand out pretty - in a pretty appealing manner.

Adam Shine: Okay...

((Crosstalk))

Gary Maavara: Doug, if I could just add one thing and that is that everybody should also remember that the skinny basic proposal is kind of the first offering. There's nothing that the CRTC has said that a BDU couldn't offer a larger package at a different price or even a larger pocket - package at a smaller price.

It's really the key issue on that model they have is the price. But I think BDUs are going to have a lot of flexibility to do other things.

Adam Shine: Okay, thank you.

Operator: The next question comes from the line of Tim Casey with BMO. Please proceed.

Tim Casey: Thanks. Following on that Doug and Gary, I mean, obviously your big channels, you know, have broad audiences and, you know, some name franchise value and whatnot.

What do you think about the smaller channels here that, you know, might've been on one growth trajectory and now that may change? How do you think about some of the smaller channels you have that you were investing and growing in, given the new framework? Thanks.

Doug Murphy: I mean, I think our entire portfolio warrants a careful review. You know, we need to invest in the big networks. Those are the networks that make, you know, 80% of our money.

The small services, we're going to have to sort out how we monetize those services, what level of audience appeal there exists for those services and what the best delivery mechanism is for those services in this new regulatory and digital environment.

So you're asking the right question. Those are the questions we're asking internally. But at the end of the day, when you look at, you know, where the lion's share of our revenue and EBITDA come from, it's on those big monster services that have such strong differentiated offerings and brands.

Tim Casey: Thank you.

Doug Murphy: You’re welcome.

Operator: The next question comes from the line of David McFadgen with Cormark Securities. Please proceed.

David McFadgen: Yes, I just have a couple questions on the ad market. So in Q2 your specialty ad revenue declined by 7%. I was just wondering if you can comment on how it's tracking in Q3.

Doug Murphy: We're seeing a continuation of the trend that's occurred in the first half of the year. That's part of the story of our call for the back half is that we're not as of yet seeing a material change in the slope.

So we're going to be conservative and hope that with the trend we're seeing is the worst it gets. But the CPG flu, I'm going to use that - I’m going to coin that term from Gerry Mackrell, Head of Sales, it is certainly sustaining.

David McFadgen: So is it primarily the CPG category or is it spreading across other categories?

Doug Murphy: That's the principal category. There’s also some larger shock waves emanating from the Target closure, as you might imagine. So that's causing some knock on effects that we're still sorting through, excuse me.

David McFadgen: And then just on the radio business, you talked about Vancouver and the Edge you're seeing some improvements there. Can you comment on where the weakness still persists on the radio business?

Doug Murphy: I'll talk - let me talk about Vancouver for a second. You know, we've - our two big stations in Vancouver are now number two and number three and that's been a significant increase in rankers in the last 18 months.

And we've always said that you get in top three and all of a sudden, you start to get some revenue growth and we're expecting revenue growth of a significant amount for our Vancouver radio.

So, you know, that - that just validates the fact that the good work we're doing on music research to ensure we have the right positioning in the market does pay dividends when you hit it right.

So that (unintelligible). Where the misses on revenue in radio are is principally located in Ottawa and in Toronto. And those are - Ottawa has taken longer to ramp up. We were successful in achieving the ratings we wanted, but it's been slower to get monetized. So we're doing work with our sales management and reps in that marketplace.

And in Toronto, it remains a function of the national rankers of our services, notwithstanding my comments prior that our local sales activities are improving as a function of new management focus and changes, the challenge in Toronto radio is principally the national sales share issue.

Tom Peddie: David, it's Tom. Just to add a little more color to that, building on Doug's comment about national. You know, when you look at some of the categories in radio, you know, in the quarter, you know, banks and financial was a category that was down, you know, fast food restaurants was down. A lot of that can be more of a national nature, same thing with home electronics whereas domestic auto was a category was up.

Interestingly, depending on which market you're in, we got some additional revenue from government elections. So you can see it has regional focus, but it also depends upon the particular category.

And as you know, when you have a late start to spring, you don't get any home and garden stuff. And so, you know, if we ever get the sun shining, that could be a category that could improve.

Doug Murphy: And the same goes, the late winter is also affecting our beer money.

David McFadgen: Okay. And then just lastly, I don't know if you can comment but I'll venture anyways. Could you tell us what your interest would be in the Disney programming that's up for renewal on Family Channel this year?

Doug Murphy: We can't see how that would be a doable play for us, so no interest really.

David McFadgen: Okay. All right, thank you.

Operator: The next question comes from the line of Robert Peters with Credit Suisse. Please proceed.

Robert Peters: All right, thank you very much for taking my question. Just a very brief one for me, kind of building on David's comments around the area of CPG. I was just wondering when you think about share of ad spend, is this really just a situation where the economic uncertainty is kind of drawing down ad dollars across the board?

I think at the Investor Day, you had mentioned there had been some shift to digital. Is this, is that, is it more just the CPG or is there also some shift of dollars to digital?

Doug Murphy: There is a lot of - that's a good question Robert. There’s a lot of pieces moving around. Yes, there continues to be a shift to digital and - but our research continues to cause us to believe that some of that's been overdone.

And that the brand equities of some of those advertisers that have moved more weight into digital suffered and that we may well see some pendulum swing back to traditional broadcasting which has the best reach and best brand building efficacy out there.

The other thing that we see in the marketplace is and imagine with the closing of Target, think about the concentration of power in the retail channel. And so a lot of dollars has been diverted from some more traditional advertising platforms into trade marketing to secure positions at point of sale and (unintelligible) and all that kind of stuff. So we're seeing some shifting over that way.

And also, there has been some more recently - the conventional television has grown fairly strongly. Conventional in some quarters has been performing better than specialty, we don't know if that's hockey or some of the big shows that are big on conventional now, hard to determine.

But there is lots of stuff that moves around in there that has come into play. So our job is to basically continue to grow our audiences, continue to compete as the best and most innovative client marketing operation in the business.

We have a number of successful advertising growth stories that are teeing off our KIN Community asset and integrations that basically go from specialty television, to KIN Community even to radio. So it's that part of the competitive environment we're going to do well and that's our focus.

Robert Peters: Thank you very much.

Doug Murphy: You’re welcome.

Operator As a reminder, to register for a question please press 1 4 on your telephone. The next question comes from the line of Haran Posner with RBC. Please proceed.

Haran Posner: Yes, thanks very much. Good afternoon. Doug, let me try to ask in a big picture fashion, just with respect to the CRTC decision on unbundling, obviously a lot of puts and takes and some channels will benefit; others will lose.

When you look at your television portfolio, including pay and specialty but ex-Nelvana, do you feel once we get into this regime in the next 18 months or so that this business is still a growth business for you?

Doug Murphy: The specialty channel business?

Haran Posner: Yes.

Doug Murphy: Yes, we do feel that way. As Gary alluded to earlier, the strength of W is largely attributable to our original programming. The most recent decision from the commission gives us more ability to direct dollars against shows that drive our networks and the abolition of the terms of trade further benefits our ownership of more content.

So while there may be some challenges in the domestic linear channel business from a subscriber perspective, at the end of the day, there's not a high correlation, if any at all, between subscriber and AMA.

We have some examples in our portfolio of channels that have lost 20% of their subscriber base in the last three years and yet are up 30% in their AMA on audience delivery which our sales team is monetizing and driving growth.

So if we have the best programming on our services and we're growing revenues on advertising, that's the ticket. And then of course, owning that content and exploiting that content in the global market place is a whole new revenue stream.

And I'll just let everybody know that we now currently are - we've got a pretty exciting slate of owned content that's being built in the women's and family vertical that we'll talk more about in the coming quarters.

Haran Posner: And then with respect to the - related to that and on the Nickelodeon deal, I'm just wondering if you could comment on first the term of this new licensing agreement, maybe I missed that.

And then with respect to monetization on digital so just so I understand, could you license the Nick content to say, Netflix in Canada and monetize that? And then the last question related to this is obviously there are some minimum guarantees that you're making to Nick and then some variable component of this programming spend.

Can you may be help us just - or maybe for Tom, can you help us maybe break that out between a fixed and a variable?

Doug Murphy: The annual commitments are based on minimum guarantees and variable payments. Those will start to show up in the coming quarters and upcoming fiscal years. We won't disclose the term.

And as regards what we can do with those rights in Canada and who we can do them with, we can do anything we want to do with those rights in Canada. That's the beauty of this deal, that's where this is a real departure from anything else that has ever been done before in this marketplace and with Nickelodeon and Corus.

Haran Posner: And last question for Tom, just around the free cash flow again. When I look at the back half of last year, you benefited from about $35 million, I think of working capital inflow. So when we look into the back half of this year, Tom maybe you can help with us what we should assume.

Tom Peddie: Actually we are not reflecting that in our projection that we would have that benefit of working capital in the back half of last year, that we had last year. The number will be much smaller in our current projection. As I said in my earlier response, one of the big keys for us is to manage our program spend.

Haran Posner: That’s great. Thanks very much.

Doug Murphy: Thank you very much.

Operator: And Mr. Murphy, there appear to be no further questions at this time, I’ll turn the call back over to you.

Doug Murphy: Thank you, operator. Thank you, everyone for your interest in Corus. We look forward to speaking with you and seeing you in the weeks and months ahead and have a great day. Bye, bye.

Operator: Ladies and gentlemen, that does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your line.

END